

Message Text

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ACTION EUR-12

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COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
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R 231338Z MAY 78
FM AMEMBASSY BUCHAREST
TO SECSTATE WASHDC 9691

CONFIDENTIAL SECTION 1 OF 2 BUCHAREST 3500

CORRECTED COPY (TEXT)

EO. 11562: GDS
TAGS: EGEN, ETRD, EFIN, RO
SUBJECT: SUMMARY OF ECONOMIC DEVELOPMENTS

REF: STATE 101235

1. ON EVE OF DEPARTMENT'S SUBMISSION RE PRESIDENT'S DETERMINATION CONCERNING EXTENSION OF U.S.-ROMANIAN TRADE AGREEMENT, EMBASSY WISHES TO SUBMIT WRAPUP OF DEVELOPMENTS AFFECTING U.S.-ROMANIAN ECONOMIC RELATIONS WHICH HAVE TAKEN PLACE IN WAKE OF CEAUSESCU STATE VISIT. THE RECORD IS STILL INCOMPLETE. PROGRESS HAS BEEN UNEVEN. ONE ISSUE OF INTEREST TO US ON WHICH ADDITIONAL WORK IS REQUIRED CONCERNS LINKAGE CREATED BETWEEN CONTINUATION OF GSP AND PROGRESS ON SETTLEMENT OF OUTSTANDING PROPERTY CLAIMS. ON BALANCE, HOWEVER, WE BELIEVE THAT GOR HAS MET REQUIREMENTS FOR RENEWAL OF THREE-YEAR TRADE AGREEMENT AND ONE-YEAR EXTENSION OF MFN. INFORMATION CONTAINED BELOW IS KEYED TO ISSUES AS CONVEYED REFTTEL.

A. EXPORT CONTROLS: EMBASSY CONTINUES TO BE
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APPROACHED BY GOR ON THIS ISSUE, AND IT UNDOUBTEDLY WILL CONTINUE TO BE A PRINCIPAL, CONTENTIOUS POINT INVOLVING AN INTERSECTION OF USG STRATEGIC INTERESTS AND A MIX OF POLITICAL AND ECONOMIC OBJECTIVES OF GOR. SINCE CEAUSESCU'S VISIT, HOWEVER, NO CASE HAS SURFACED INVOLVING MAJOR EQUIPMENT OR TECHNOLOGY TRANSFER, AND, CONSEQUENTLY, MOMENTUM IN THIS AREA GENERATED BY

WASHINGTON MEETINGS AND LETTER FROM PRESIDENT TO
CEAUSDESCU HAS BEEN MAINTAINED. EMBASSY PLANS TO ATTEMPT
TO CONSOLIDATE THIS IMPROVEMENT BY INTENSIFYING DIALOGUE
WITH GOR. TENSION IN THIS AREA BUILDS UP WHEN COMMUNICA-
TION BREAKS DOWN. WE HAVE REQUESTED GOR TO SUPPLY US
WITH LIST OF TOP PRIORITY CASES AT LEAST EVERY TWO
MONTHS. AS NECESSARY, PROBLEM AREAS WILL BE DISCUSSED
BY AMBASSADOR AND/OR ECONOMIC COUNSELOR WITH APPROPRIATE
MINISTERS OR DEPUTY MINISTERS.

B. CREDITS:

(1) GOR WARMLY WELCOMED EXIM BANK TEAM HEADED BY
DIRECTOR SAINT PHALLE. EXCHANGES WITH FOREIGN TRADE
BANK, MINISTRIES OF FOREIGN TRADE AND FINANCE AND PRO-
DUCTION MINISTRIES AND SUBSIDIARY FOREIGN TRADE
ORGANIZATIONS PRODUCED CLEARER UNDERSTANDING ON BOTH
SIDES OF CURRENT PROBLEMS AND FUTURE POSSIBILITIES.
EXIM TEAM APPARENTLY RECEIVED SUBSTANTIAL PORTION OF
DATA REQUESTED, INCLUDING BALANCE OF PAYMENTS DATA ON
CONFIDENTIAL BASIS. GOR EXPRESSED INTEREST IN POSSIBILITY
OF EXPANDING CFF LINE FROM PRESENT \$5 MILLION LEVEL TO
\$50 MILLION AS WELL AS IN INCREASING EXIM PROJECT LOAN
FINANCING. A LONG EDUCATIONAL PROCESS IS INVOLVED IF WE
ARE SIGNIFICANTLY TO EXPAND EXIM'S EXPOSURE HERE: COM-
PETITION FROM EUROPEAN AND JAPANESE OFFICIAL SOURCES IS
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STIFF AS ELSEWHERE, AND THEIR PROGRAMS ARE GENERALLY
MORE FAMILIAR TO GOR.

(2) CREDITS FOR AGRICULTURAL PURCHASES WILL BE
DISCUSSED BY SECRETARY BERGLAND DURING MAY 23-25 VISIT.
GROUND FOR THESE DISCUSSIONS ALREADY PREPARED IN COURSE
OF VISIT BY MARKET DEVELOPMENT TEAM (SEE BUCHAREST 3227).
AGRICULTURE CONTINUES TO BE ONE OF MOST PROMISING AREAS
FOR U.S.-GOR COOPERATION AS EVIDENCED BY FACT THAT GOR
HAS EXPRESSED INTEREST IN VARIOUS FORMS OF COOPERATION
INCLUDING JOINT VENTURES AND EXPANDED CCC CREDIT FACILI-
TIES. COOPERATION IN AGRICULTURE APPROACHING DE FACTO
JOINT VENTURE IN ONE OR MORE AREAS WOULD SERVE NOT ONLY
AS USEFUL UNDERPINNING FOR FURTHER TRADE EXPANSION BUT
AS DEMONSTRATION TO GOR THAT SUCH COOPERATION IS BOTH
POSSIBLE AND DESIRABLE OUTSIDE TRADE-PRONE HIGH-
TECHNOLOGY AREA WHICH HAS BEEN ALMOST EXCLUSIVE FOCUS
OF ITS EFFORTS UP TO NOW.

C. MFN:

GOR APPEARS TO BE CAREFULLY MONITORING U.S.-

HUNGARIAN DEVELOPMENTS AND IN GENERAL IT IS OUR VIEW
THAT COMPETITION PROVIDED BY HUNGARIANS IN THIS
FIELD, AS IN OTHERS, IS SALUTARY. HOWEVER, EMBASSY
BELIEVES THAT USG SHOULD NOT OVERDRAW PARALLELS BETWEEN
THE TWO COUNTRIES ON THIS PARTICULAR ISSUE. ALL
EASTERN EUROPEAN COUNTRIES ARE HIGHLY SENSITIVE TO ANY
INDICATION OF ANY TENDENCY ON OUR PART TO LUM THEM TOGETHER
FOR POLICY PURPOSES AND TO MAKE PROGRESS IN OUR RELATIONS
WITH ONE DEPENDENT ON RELATIONS WITH ANOTHER OR WITH
U.S. APPROACH TO REGION AS A WHOLE. WITH SOME JUSTIFICA-
TION, THE GOR VIEWS HUNGARY AS A JOHNNY-COME-LATELY
AND ITSELF AS A VETERAN BY VIRTURE OF ITS MFN ARRANGEMENT
WITH THE USG. GOR WILL DO WHAT IT CAN TO STAY A
STEP AHEAD OF HUNGARIANS AND WILL, IN THAT CONTEXT,
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CONTINUE ITS CAMPAIGN FOR MULTI-YEAR MFN.

D. FISHERIES: GOR HAS NOT INITIATED DISCUSSION
IN BUCHAREST CONCERNING ELIMINATION OF ROMANIA'S MACKEREL
AND HERRING FISHERIES, BUT WE CAN PROBABLY ANTICIPATE
GOR REQUEST FOR FOLLOW-UP TO PUNGAN'S REQUEST THAT
SECRETARY VANCE LOOK INTO THIS ISSUE.

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FM AMEMBASSY BUCHAREST
TO SECSTATE WASHDC 9692

C O N F I D E N T I A L FINAL SECTION OF 2 BUCHAREST 3500

E. PROPERTY CLAIMS:

(1) AS EMBASSY SEES SITUATION, SINCE DPM PATAN'S REMOVAL AS MINISTER OF FOREIGN TRADE IN MARCH 1978, GOR HAS SHOWN SOME INCLINATION TO STEP BACK FROM SOLUTION PATAN ENVISAGED IN NOVEMBER 1977, IF IT COULD. REASON FOR INCLINATION ARE OBSCURE. GOR RESPONSE TO OUR REPEATED VERBAL AND WRITTEN REPRESENTATIONS CONCERNING OUTSTANDING CLAIMS HAS BEEN RATHER CONSISTENTLY DILATORY, RATHER THAN NEGATIVE, AND IT IS STILL UNCERTAIN HOW MUCH BACKING PATAN HAD FOR CLOSELY-HELD ADMINISTRATIVE SOLUTION TO GET ROUND CRUX OF LEGAL PROBLEM: DECREE 223 LIMITATIONS AT UNREALISTICALLY LOW LEVELS ON MAXIMUM COMPENSATION. FACT THAT "ADMINISTRATIVE SOLUTION" WAS NOT MENTIONED BY EITHER SIDE DURING CEAUSESCU VISIT IN WASHINGTON IS NOT CONCLUSIVE EVIDENCE CONCERNING GOR INTENTIONS, AS WE SEE IT, SINCE ANDREI AND PUNGAN MAY HAVE BEEN GIVING HORSEBACK REACTIONS WITHOUT FULL KNOWLEDGE OF DETAILS. BUT WASHINGTON DISCUSSIONS WILL PROBABLY MAKE IT MORE DIFFICULT TO KEEP "ADMINISTRATIVE SOLUTION" ALIVE IN AFTERMATH, AT LEAST IN ORIGINAL FORM.

(2) AT SAME TIME, IN CONVERSATION WITH AMBASSADOR
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SUBSEQUENT TO STATE VISIT, DPM AND FINANCE MINISTER NICULESCU REAFFIRMED GOR COMMITMENT TO "POSITIVE SOLUTION," AND EFFORT OBVIOUSLY WARRENTS PURSUIT BY BOTH SIDES. TO MAKE IT EFFECTIVE, WE BELIEVE TWO CONSIDERATIONS MUST BE TAKEN INTO ACCOUNT:

--AS REGARDS LINKAGE BETWEEN GSP AND PROPERTY CASES, EMBASSY BELIEVES GOR HAS INTELLECTUAL APPRECIATION THAT SUCH LINKAGE EXISTS, BUT DOES NOT NECESSARILY UNDERSTAND PROCESS BY WHICH USG MIGHT IN CERTAIN CIRCUMSTANCES WITHDRAW GSP, NOR ANY CLEAR NOTION OF POSSIBLE, PURELY ECONOMIC REPRECUSIONS WHICH WOULD FLOW FROM SUCH WITHDRAWAL. DEPARTMENT MAY THEREFORE WISH TO CONSIDER POSSIBILITY OF EFFORT TO MAKE THIS LIKAGE CLEARER, BOTH IN WASHINGTON AND BUCHAREST, AS WE CONTINUE TO URGE GOR TOWARD "POSITIVE SOLUTION" OF INDIVIDUAL PROPERTY CASES.

--AT BOTTOM LINE, HOWEVER, IS LIKELIHOOD (SUGGESTED IN BUCHAREST 921) THAT THERE MAY BE LESS TO PROPERTY CLAIMS THAN MEETS THE EYE. NUMBER OF ACTIVE PROPERTY CLAIMS IS RATHER SMALL, AND NUMBER OF WELL-DOCUMENTED CLAIMS IS SMALL INDEED. AS EMBASSY AND DEPARTMENT PROCEED WITH EFFORTS TO DOCUMENT SOLID CLAIMS, IT IS IMPORTANT NOT TO ASSUME THAT GOR HAS NOT SENSED THIS LIKELIHOOD DESPITE OUR GENERALIZED REPRESENTATIONS.

ONLY SOLUTION WE SEE IS TO CONTINUE TO SEEK MORE SPECIFICS FROM CLAIMANTS, AND DEPARTMENT MAY THEREFORE WISH TO CONSIDER POSSIBILITY OF EXTENDED TDY TO EMBASSY BY L OFFICIAL WELL-VERSED IN PROPERTY CLAIMS ISSUES, WITH VIEW TO COORDINATING THIS JOINT EMBASSY-DEPARTMENT EFFORT, AND TO PRESENTING GOR WITH COHERENT AND PERSUASIVE PACKAGE FOR ACTION.

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F. COOPERATION IN AGRICULTURE: AS NOTED ABOVE, THIS IS PERHAPS THE BUSIEST AND MOST SUCCESSFUL AREA OF U.S.-GOR ECONOMIC COOPERATION. AT SECOND SESSION OF JOINT WORKING GROUP, GOR PROVIDED SOME OF DATA REQUESTED. ROMANIANS EXPRESSED DESIRE TO EXPAND RESEARCHER EXCHANGE PROGRAM, CREDITS FOR IMPORTING SOYBEANS AND BREEDING CATTLE AND DISCUSSED THE POSSIBILITY OF ESTABLISHING SOMETHING RESEMBLING DE FACTO JOINT VENTURE IN SWINE PRODUCTION.

2. MORE GENERALLY, GOR ASSURANCES THAT IT IS READY TO RECIPROCATATE CONCESSIONS OF ITS PARTNERS IN MULTILATERAL TRADE NEGOTIATIONS REMOVE MAJOR HURDLE IN PATH OF RENEWAL OF U.S.-ROMANIAN TRADE AGREEMENT. GOR IS CLEARLY LOOKING FORWARD TO MAJOR EXPANSION OF TRADE WITH U.S. THIS YEAR. INHERENT PROSPECTS AND PLANS COMBINED WITH LOOMING DIFFICULTIES WITH ITS WESTERN EUROPEAN TRADING PARTNERS COMBINE TO LEND SPECIAL CREDENCE TO GOR PROJECTIONS. DEPUTY MINISTER OF FOREIGN TRADE MARGARITescu TOLD EXIM BANK TEAM THAT HE ANTICIPATES TWO-WAY TRADE IN 1978 TO TOTAL \$700 TO \$750 MILLION. THIS WOULD REPRESENT AN INCREASE OF ABOUT 25 PERCENT AS COMPARED TO GOR TRADE FIGURES FOR 1977.

3. IN CONCLUSION, PROGRESS ON VARIOUS ECONOMIC ISSUES SURVEYED ABOVE HAS BEEN FOR THE MOST PART STEADY BUT UNDRAMATIC. STATE VISIT CLEARLY GAVE IMPETUS ON SOME POLICY ISSUES AND WILL, WE ARE SURE, TEND TO EXPEDITE INCREASES IN TRADE LEVELS, ACCELERATION OF COOPERATION IN AGRICULTURAL SECTOR, AND PERHAPS IN SHORT RUN AT LEAST MARGINAL INCREASE IN EXIM'S ACTIVITIES. ON BALANCE, RECORD ON POLICY AND LEGAL ISSUES INDICATES TO US THAT REQUIREMENTS FOR RENEWAL OF THREE-YEAR TRADE AGREEMENT AND ONE-YEAR EXTENSION OF MFN HAVE BEEN MET.

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